EXHIBIT 1
DATE 2/20/2015
HB 531

PCI Property Casualty Insurers Association of America
Shaping the Future of American Insurance

ANALYSIS OF REMOVING CREDIT-BASED INSURANCE SCORES ON INSURANCE RATES IN ALASKA

Currently in Alaska, credit-based insurance scores may be used as part of insurance companies' rating models. However, at certain renewal events (generally two or three years), credit history is no longer allowed. In other words, rates[1] for certain insured drivers and residential property owners must be adjusted without the use of insurance scoring when they are renewed after at least two years.

Many individuals and households have good credit history that enables them to have lower insurance rates than what they would normally receive if credit were not used. If scoring is removed from the rating formula, conventional wisdom indicates that these insureds would receive increases in their premiums. This premise is corroborated by a recent poll conducted by PCI on the impact of removing credit-based insurance scores in Alaska.

Leading personal auto and homeowners carriers that use credit-based insurance scores as a rating tool in Alaska responded to the following question: "For those customers who had been rated using credit-based insurance scores, how much higher were their premiums without the use of insurance scores?" All participating carriers confirmed that eliminating credit from the rating process at the selected renewal event had a detrimental effect on a substantial proportion of policyholders. For example, of the policies whose rates were impacted, one company reported premium increases for 62 percent of its auto business. Another company also reported increases for 62 percent of its homeowners business due to the removal of insurance scoring for these policyholders.

The following table sets forth aggregated results[2] from the PCI poll, separated for personal auto and homeowners lines. Based on the group of policyholders receiving rate increases, these findings reflect their distribution for certain ranges of increase after credit history has been excluded from the rating process.

Distribution of Policyholders with Premium Increases Affected by the Removal of Credit-Based Insurance Scores		
Range of Increase	**Personal Auto**	**Homeowners**
1%-10%	36.4%	28.9%
11%-15%	21.7%	14.3%
16%-20%	17.5%	14.0%
21%-25%	14.7%	13.9%
26% or More	9.7%	28.9%

At renewal, after two or three years, the exclusion of insurance scoring was found to have a wide-ranging impact on revised rates for various insured drivers and residential property owners of Alaska. Premium increases of 10 percent or less were given to 36.4 percent of the personal auto policies and 28.9 percent of the homeowners policies. Although these changes are relatively small

[1] The terms "rates" and "premiums" are used interchangeably in this analysis.
[2] Aggregated results are weighted by each participating carrier's market share, using their 2008 direct written premiums.

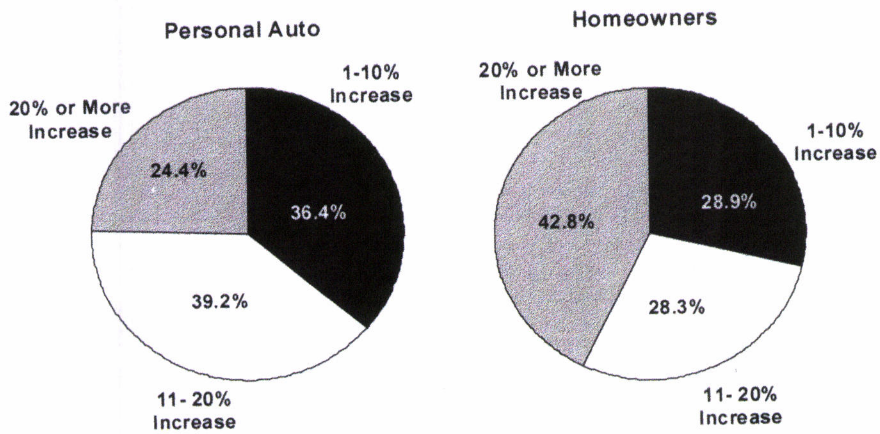
February 19, 2010

and may not appear to be too critical, the fact that a greater portion of policies was impacted more severely cannot be dismissed.

The following points summarize how other Alaskans receiving rate increases were affected by the elimination of insurance scoring at renewal time:

- Nearly 40 percent (39.2% = 21.7% + 17.5%) of personal auto policies had premium increases between 11 percent and 20 percent.
- Almost 3 out of 10 homeowners policies (28.3% = 14.3% + 14.0%) had premium increases between 11 percent and 20 percent.
- The most significant premium increases – greater than 20 percent – were given to roughly one-fourth (24.4% = 14.7% + 9.7%) of the personal auto policies and more than 4 out of 10 (42.8% = 13.9% + 28.9%) homeowners policies.

Distribution of Alaska Policyholders with Rate Increases Affected by Removing Credit-Based Insurance Scores



Note: Aggregated percentages are weighted by each carrier's auto market share, based on 2008 direct written premiums.

In conclusion, the use of credit-based insurance scores for rating purposes helps pricing to be more competitive and more advantageous for insureds due to greater accuracy in matching the cost of insurance to the level of risk. Those insurers that use credit history are able to charge their policyholders less than what they would otherwise pay for coverage if scores were not used. This variable is one of the most accurate and equitable factors used in pricing personal lines insurance as it provides information about a risk that no other factor provides. As seen from the PCI poll, restricting the use of credit history resulted in much higher rates for a substantial portion of Alaska's insured customers. During this time of economic hardship, keeping costs down for this state's consumers should be the most significant consideration.

The Property Casualty Insurers Association of America (PCI) is a trade association consisting of more than 1,000 insurers of all sizes and types. PCI members represent 37.4 percent of the total property/casualty insurance business and 39.9 percent of the total personal lines market in the nation. In Alaska, PCI members represent 34.6 percent of the personal lines (auto and homeowners) market.

A REPORT TO THE LEGISLATIVE COUNCIL AND THE SENATE AND HOUSE COMMITTEES ON INSURANCE AND COMMERCE OF THE ARKANSAS GENERAL ASSEMBLY (AS REQUIRED BY ACT 1452 OF 2003)

USE AND IMPACT OF CREDIT IN PERSONAL LINES INSURANCE PREMIUMS PURSUANT TO ARK. CODE ANN. § 23-67-415

Prepared by: Dan Honey, Deputy Commissioner, Compliance
Arkansas Insurance Department

Approved by: Jay Bradford, State Insurance Commissioner

Date Submitted: June 1, 2014

PRIVATE PASSENGER AUTOMOBILE INSURANCE AND CREDIT

During 2013 for private passenger automobile coverages:

- 2,124,269 policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- 977,063 policies (46 %) resulted in the premium being decreased.
- 327,719 policies (15.4%) resulted in the premium being increased.
- In the remaining 819,487 polices (38.6 %), credit was a neutral factor and did not contribute to or change the final premium.
- For those policies in which credit played some role in determining the final premium, those receiving a decrease outnumbered those who received an increase by 2.98 to 1.
- 84.6% of consumers either received a discount for credit or it had no effect on their premium.

HOMEOWNERS INSURANCE AND CREDIT

During 2013 for homeowners coverages:

- 675,288 policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- 338,912 policies (50.2%) resulted in the premium being decreased.
- 107,851 policies (16%) resulted in the premium being increased.
- In the remaining 228,525 polices (33.8%), credit was a neutral factor and did not contribute to or change the final premium.
- For those policies in which credit played some role in determining the final premium, those receiving a decrease outnumbered those who received an increase by 3.14 to 1.
- 84% of consumers either received a discount for credit or it had no effect on their premium.

OTHER PERSONAL LINES

During 2013, for other personal lines:

- 443,486 policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- 149,446 policies (33.7%) resulted in the premium being decreased.
- 32,961 policies (7.4%) resulted in the premium being increased.
- In the remaining 261,079 polices (58.9%), credit was a neutral factor and did not contribute to or change the final premium.
- For those policies in which credit played some role in determining the final premium, those receiving a decrease outnumbered those who received an increase by 4.53 to 1.
- 92.6% of consumers either received a discount for credit or it had no effect on their premium.

Q: What has the use of credit information done to insurance rates?
A: Credit-based insurance scores *reduce* premiums for most consumers.

Credit-based insurance scores are fair & accurate.

Studies by the University of Texas and the Federal Trade Commission found credit-based insurance scores are highly predictive of whether an individual will file an insurance claim and for how much, while simultaneously finding no evidence they are proxies for ethnicity or income. Most insurance companies in the United States use insurance scoring to one degree or another to price auto and homeowner coverage because it allows them to better match the rates consumers pay with the level of risk they represent. It makes sense that people with a lower risk of filing a claim should pay less for their insurance.

While insurers are able to calculate scores for most consumers, about 4% of the population does not have sufficient enough credit history to generate a score. Montana state law (MCA 33-18-605) protects these consumers by prohibiting an insurer from considering this lack of a score, except under very limited circumstances.

Consumers could see rates go up if insurance scoring is prohibited.

Because most people manage their credit responsibly, the use of credit-based insurance scores benefits a majority of consumers and saves them money. Banning such use would mean that responsible consumers would pay more – and subsidize the cost of insurance for less responsible consumers.

Without the use of insurance scores:

- ✓ **Policyholders with a history of responsible credit management could pay more for their home and auto insurance.**
- ✓ **Policyholders with a *low risk* of filing a claim could subsidize the cost of insurance for those who are at *higher risk* of filing a claim.**

Study results "...corroborate the insurance industry's contention that the majority of policyholders benefit from the use of credit scoring."

Nevada Division of Insurance study, 2005

"87% of consumers either received a discount for credit or it had no effect on their premium."

Report to the Arkansas Legislature by the State Insurance Department, 2009

The numbers prove it...

Credit is only part of the score...

Insurance scores use *some* information from credit reports – but not all. And insurers also use other, non-credit information, such as driving record or marital status, to determine a policyholder's risk of loss. All these factors taken together help establish premium.

Most consumers earn favorable credit scores

According to FICO® (the data analytics company formerly known as Fair Isaac Corp.), **76%** of consumers exhibit good or fair credit management behavior, which result in higher credit scores. While credit scores and credit-based insurance scores are not identical, good credit scores correlate to good insurance scores – and result in lower insurance costs for consumers.

Most consumers pay less for insurance because of insurance scoring

A 2006 study conducted by the respected Oregon-based economic research firm ECONorthwest revealed:

58% of auto policyholders and 53% of homeowners policyholders in Oregon **paid lower premiums** due to the use of credit information by their insurer.

Policyholders with favorable insurance scores paid as much as **48% less** than they would have paid without the use of credit information.

Annual premium reductions for credit-based insurance scores averaged $115 on auto insurance and $60 for homeowners insurance. That means credit-based insurance scoring saved an average family $175 per year – savings that would be threatened by a law to prohibit credit-based insurance scoring.

Q: Aren't states moving to ban insurers' use of credit history?

A: *No.* Citizens and legislators nationwide have rejected laws to ban insurance scoring - *again and again, over 22 years.*

States regulate – *but nearly all allow* – credit-based insurance scoring

Nearly every state – including Montana – has laws to ensure the fair and accurate use of credit information by insurance companies. Only two ban its use entirely. Two others have enacted bans on credit-based insurance scores in specific lines of insurance: Hawaii (auto insurance) and Maryland (homeowners).

Legislators and regulatory agencies in 48 states have studied and debated insurers' use of credit information and have determined insurers should be allowed to use credit information in underwriting and/or rating decisions. Recent developments include:

- **In 2009, 16 states** considered legislation banning the use of credit-based insurance scoring. Not one of those bills passed either chamber of a single state legislature.
- **In 2008, 18 states** considered legislation banning the use of credit-based insurance scoring. Only two of those bills passed either chamber of a state legislature. Neither bill came to a vote in the opposite chamber.
- **In 2007, 14 states** considered legislation banning the use of credit-based insurance scoring. Not one of those bills passed either chamber of a state legislature. Not one of those bills passed out of its committee of origin.

> *"This is the classic case of an initiative that sounds worth a look at first glance, but would cause disruption, uncertainty and ultimately higher rates for everyone."*
> **The Daily Astorian (Oregon)**
> *October 20, 2006*

2006: Oregon Voters Say No to Higher Insurance Rates by 2-1

In the fall of 2006, Oregon voters resoundingly defeated a state ballot measure that proposed a ban on insurance companies' use of credit information to help them set rates for insurance.

In the nation's only public vote on an issue which has generated widespread debate in legislatures and regulators' offices across the country, consumers themselves strongly endorsed insurers' use of credit information, defeating Oregon Measure 42 by a nearly two-to-one margin – 65%-35% statewide.

Voters in one of the nation's most pro-consumer states overwhelmingly rejected attempts to ban insurance scoring because they came to see it as a practice that benefits most consumers and allows insurers to price policies more fairly.

Oregon voters responded to the experience insurers and consumers have seen across the nation over more than two decades:

Most consumers would end up paying more for their insurance. People with good credit would pay more for their insurance and people with bad credit would pay less.

A credit ban forces low risks to pay more; to subsidize high risks. Those with good credit histories would be forced to subsidize people with bad credit.

Current laws work – we don't need a ban. State consumer protection laws are already among the most restrictive in the nation, limiting how insurers may use credit information.

Maryland's cautionary tale...

In 2002, Maryland banned the use of credit information by insurers for homeowners insurance only. Consequences reported by insurers include:

- ✓ Rates for 59 percent of one company's policyholders rose 14%.
- ✓ Rates for one company's homeowners insurance rose up to 25%.
- ✓ The writing of new business has been curtailed.
- ✓ Company costs have increased as necessary systems changes have been implemented. One company reported that complying with the ban has cost more than $400,000.
- ✓ At least one company was forced to eliminate its most preferred rating tier, causing their lowest-risk customers to pay more in premiums.

Q: How does state law protect consumers when it comes to insurers' use of credit history?

A: Montana has some of the nation's toughest and most comprehensive consumer protection laws on the books.

Montana: Among the nation's toughest insurance scoring laws

In 2005, the Montana Legislature enacted the **Montana Use of Credit Information in Personal Insurance Act (MCA 33-18-601 et seq.)**

Under our state's current law, insurers cannot deny, cancel or non-renew a policy of personal insurance on the sole basis of credit information. And while credit history can be used by insurers as a factor in determining premium, insurers cannot base their rates on these factors:

- ✓ **Number of credit inquiries;**
- ✓ **Lack of a credit card account;**
- ✓ **Collection accounts with a medical industry code;**
- ✓ **The initial purchase of a new vehicle or home that increases the consumer's debt;**
- ✓ **A consumer's use of a particular type of credit or debit card (such as a department store or gasoline credit card);**
- ✓ **The total amount of a consumer's available credit.**

Insurers support new consumer protections proposed by State Auditor Monica Lindeen

State Auditor Monica Lindeen has proposed new legislation now under consideration by lawmakers (HB 29) that would provide new factors in addition to those approved in 2005 to provide more protection for consumers.

In addition to the factors shown at left, Montana law protects consumers facing "extraordinary events, including:

- ✓ **Death of an immediate family member;**
- ✓ **Temporary loss of employment;**
- ✓ **Expenses related to a catastrophic illness or injury;**
- ✓ **Status as a victim of identity theft.**

Auditor Lindeen's proposal (sponsored by Rep. Jonathan McNiven, R-44) would also prohibit insurers from basing insurance premiums on credit changes attributable to these factors:

- ✓ **Military deployment overseas;**
- ✓ **Divorce.**

HB 29 provides consumer protection without disrupting the insurance marketplace or unfairly increasing rates for insurers who today pay less for insurance than they would if credit information could not be considered.

Q: Why do some insurance companies consider education or occupation in setting rates?

A: It helps insurers predict risk, increase availability and accurately price home and auto policies.

Insurance companies consider many factors to help them match rates to the risk of loss

By law, insurance companies may only consider information that helps predicts loss. State insurance departments charged with enforcing this law routinely approve rate filings that utilize education and occupation data. They do so because education and occupation data helps insurance companies identify the relative likelihood of an insurance loss, based on the actual loss experience of individuals with similar education levels or engaged in similar occupations.

The notion that insurance companies use these factors as excuses to charge those who hold so-called "less prestigious" jobs is demonstrably false. A number of insurance companies market to specific occupations such as military officer and teacher. <u>These companies do not attract and retain policyholders by charging their target demographic more; they do so by offering a competitive price.</u>

When insurance companies are allowed to consider information that accurately predicts risk of loss, consumers benefit because:

- ✓ **Rates match risk:** Higher-risk policyholders may pay a higher rate that accurately reflects their higher risk of loss – so lower-risk policyholders don't have to subsidize the cost of insurance for higher-risk policyholders.
- ✓ **Improved availability:** The more information an insurance company has regarding a consumer, the more able they are to accurately predict risk of loss and confidently offer coverage. This improves availability and consequently affordability for more insurance consumers.

State after State Confirms: Education and Occupation Data Is Predictive of Loss

- **Maryland, June 2006:** The state Insurance Administration's review of one insurance company's use of these factors finds such use "*reasonably objective*" and "*meets actuarial standards of practice and principles related to risk classification.*"
- **New Jersey, April 2008:** The state Insurance Department finds "*[a]n analysis of the rates of multiple insurers demonstrates that the use of these factors has not created higher overall premiums for drivers with lesser occupational and educational attainment.*"

"Allowing insurers to use a wider variety of rating factors has contributed to overall improvement in the marketplace for many kinds of drivers and in all regions of the State."

New Jersey Department of Banking and Insurance
Report: The Use of Occupation and Education Factors in Automobile Insurance
April 2008